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National Association of Purchasing Management

Report On Business®

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New orders up; rate slowing

Purchasing Index Slips to 58.9%

Deliveries Slowest Since April 1984

Analysis by the National Association of Purchasing Management Business Survey Committee; chair, Robert J. Bretz, C.P.M., director of materials management, Pitney Bowes, Inc.

The *Report on Business* is based on data compiled from replies to questions asked of purchasing managers in some 250 industrial companies. Membership of the Business Survey Committee is diversified geographically, based on value added by state, and by Standard Industrial Classification category, based on each industry's contribution to national income.

November Report

The economy continued to grow in November, but at a slower pace than reported in October, say the nation's purchasing managers in their latest **Report on Business.** In a special question regarding the estimated impact of the recent decline in the stock market on their company's future business, 53% of purchasers said it was too early to tell, 31% said they expected no change, 10% expect a moderate decline and 6% see a moderate increase.

Production and new orders increased for the 11th consecutive month, but at a slightly slower rate. Vendor deliveries continued to slow, with the difference between those reporting faster and slower deliveries at its greatest since April 1984. Inventories declined for the second consecutive month, probably as a result of slowing deliveries and shortages in metals, plastics and paper products. Employment grew, although the rate of growth was slightly slower than in the past three months. More purchasers reported higher rather than lower prices for the 15th consecutive month, but the increases show signs of plateauing.

The report was issued today by Robert J. Bretz, C.P.M., chair of the National Association of Purchasing Management's Business Survey Committee and director of materials management at Pitney Bowes, Inc. "For the near future at least, the stock market decline has had only a minor impact on the economy," Bretz said. "Virtually all indicators remain positive. Although the growth rate is off slightly from October, the economy continues to grow. This is signaling a strong fourth quarter to end the fifth year of the recovery."

The **Purchasing Managers' Composite Index** slipped to 58.9% in November, down somewhat from 61.8% in October. Nevertheless, it is significant to note that 61.8% was the highest the index has been since December 1983 (69.9%) and that November marks the 16th consecutive month this leading economic indicator has exceeded 50%. Noted Bretz: "The Purchasing Index has averaged 57.3% for the first 11 months of 1987. Based on past experience, if this average were to continue in December, it would be consistent with real GNP growth of 4.0% for 1987." A reading above 50% indicates that the economy is generally expanding; below 50%, that the economy is generally declining. The index is based on analysis by the U.S. Department of Commerce. Except for this index, the information in this report is not seasonally adjusted.

Net Difference

In each category measured, this report shows a net difference, the difference between the number of responses in the positive direction (higher, better, faster) and the negative direction (lower, worse, slower). Analysis of the month-to-month difference compares the rate of change.

Employment

November marked the eighth time in the last nine months that employment has expanded. Although the pace of growth was not as brisk as in the previous three months, it is still strong, considering normal seasonal slowing.

Employment	% Higher	% Same	% Lower	Net
November	15	72	13	+2
October	19	69	12	+7
September	19	68	13	+6

Buying Policy

Lead times for production materials expanded in November as the number of purchasers reporting lead times of 60 days or more increased to 50%, up from 48% in October. This is the highest since November 1984 (51%) and is a direct reflection of the slowing in vendor deliveries and shortages in numerous commodities. Lead times for capital expenditures shortened slightly after two consecutive months of expansion; the number of members reporting lead times of six months and longer fell to 54%, down from 55% in October. Lead times for maintenance, repair and operating (MRO) supplies lengthened slightly as the number of purchasers indicating lead times of 30 days or fewer decreased to 86%, down from 87% in October.

	Percent Reporting				
Production Materials	Hand to Mouth	30 Days	60 Days	90 Days	6 Months and Longer
November	18	32	25	20	5
October	18	34	25	14	9
September	17	41	22	13	7
MRO Supplies					
November	38	48	10	3	1
October	42	45	9	3	1
September	42	40	11	5	2
Capital Expenditures					
November	11	8	10	17	54
October	8	7	13	17	55
September	10	8	13	17	52

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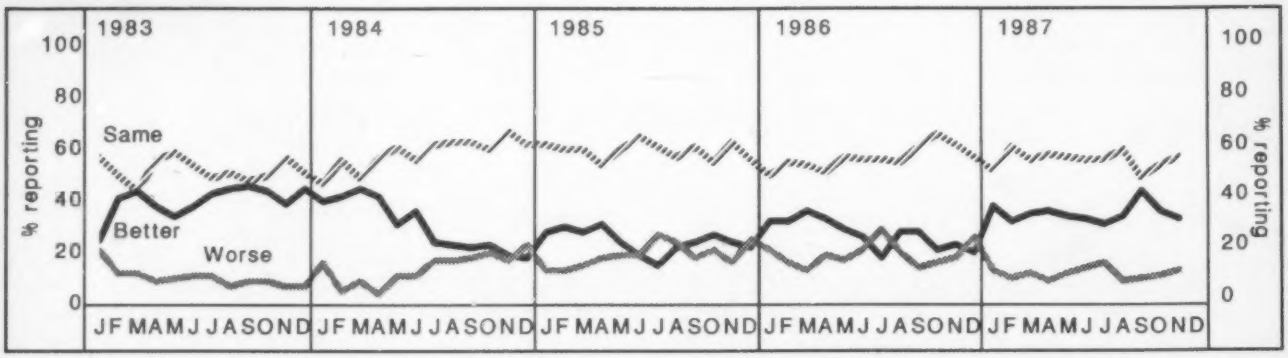
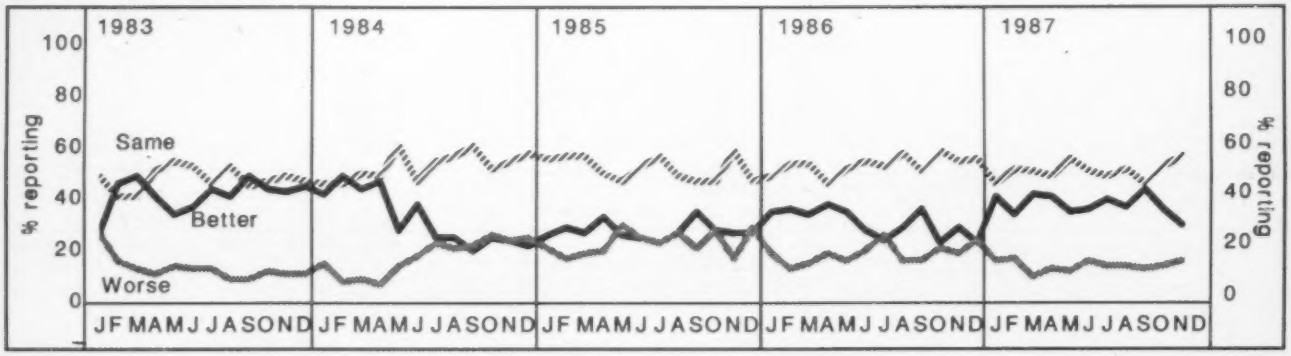
Production



Production expanded in November, as expected from the significant increase in new orders in October. Although the rate of growth is slower than in the past three months, it is still very strong, considering normal seasonal slowing. November is the 11th consecutive month of growth.

Production	% Better	% Same	% Worse	Net
November	32	56	12	+20
October	35	55	10	+25
September	43	48	9	+34

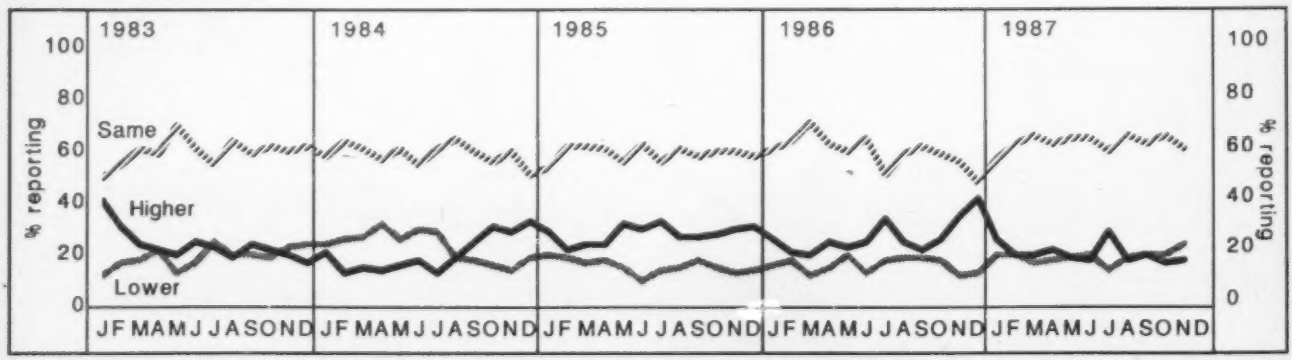
New Orders



November marked the 11th consecutive month of growth in new orders. Considering normal seasonal slowing, the rate of growth continues strong and suggests production will be healthy in December.

New Orders	% Better	% Same	% Worse	Net
November	29	56	15	+14
October	35	52	13	+22
September	43	45	12	+31

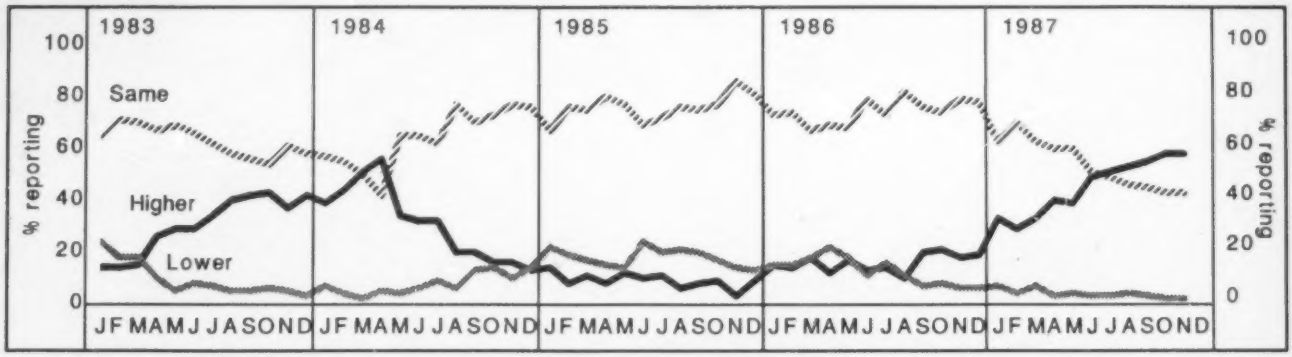
Inventories



Inventories declined in November for the second consecutive month. Even though some members indicated efforts to increase inventories to compensate for slowing vendor deliveries and shortages of certain basic commodities, they have not been able to do so.

Inventories	% Higher	% Same	% Lower	Net
November	17	60	23	−6
October	16	65	19	−3
September	19	62	19	0

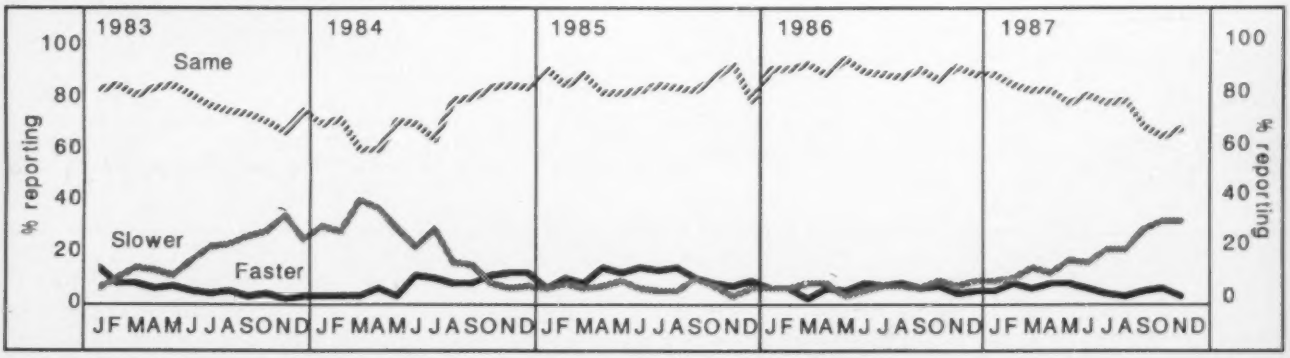
Prices



November was the 15th consecutive month in which more purchasers reported price increases than decreases. The net difference (+56) between those reporting higher prices (57%) and lower (1%) was the same as in October and is the highest since January 1981 (+59). This could suggest a possible plateauing of the rate of growth in price increases. Price increases were again essentially confined to paper, metal and plastic-related products.

Prices	% Higher	% Same	% Lower	Net
November	57	42	1	+56
October	57	42	1	+56
September	54	44	2	+52

Vendor Deliveries



November marks the 14th consecutive month in which more purchasers reported slower rather than faster deliveries. The net difference of −29 between those reporting slower deliveries (31%) and faster (2%) increased for the seventh consecutive month and is the largest since April 1984 (−31). This net difference has been exceeded only three times in more than seven years. This, coupled with the shortages of numerous metal- and plastic-related commodities, is a reflection of the robust economy.

Vendor Deliveries	% Faster	% Same	% Slower	Net
November	2	67	31	−29
October	5	64	31	−26
September	4	68	28	−24

Specific Commodity Changes

Paper-related products higher in price in November were corrugated shipping containers (19th time in 20 months) and printing paper (ninth time in past 11 months). Caustic soda was up in price for the 12th consecutive month. Metal commodities higher in price were steel (14th time in past 15 months), various steel products, steel scrap, aluminum (10th consecutive month), copper (ninth consecutive month) and brass (fourth time in last eight months).

Petroleum-derived chemicals and plastic-related items up in price included propylene (fourth time in last five months), polypropylene (fifth time in past seven months), polyethylene (fifth time in last six months), plastic products (sixth consecutive month) and ethylene (third time in last four months). Natural gas was also higher-priced.

For the third consecutive month, no significant items were reported down in price.

In short supply were aluminum (second consecutive month), steel (eighth time in past nine months), steel plate (fifth consecutive month), steel sheets (seventh consecutive month), steel pipe (second time in last three months), steel scrap, polypropylene, caustic soda (sixth consecutive month), and titanium dioxide (fourth consecutive month).

UP IN PRICE: Corrugated shipping containers, printing paper, caustic soda (used heavily in paper making and petroleum refining), aluminum, brass, copper, steel (particularly steel bars, hot- and cold-rolled sheets, carbon steel and steel scrap), steel products, castings, polypropylene (used in making thermoplastic plastics or fibers), propylene (used heavily in making polypropylene), polyethylene, polystyrene (used chiefly in making synthetic rubber, resins and plastics), plastic products, ethylene (used heavily in making plastic resins), natural gas and miscellaneous chemicals.

DOWN IN PRICE: None.

IN SHORT SUPPLY: Aluminum (particularly ingot), steel, steel plate, steel pipe, hot- and cold-rolled steel sheets and coil, steel scrap, polypropylene, caustic soda and titanium dioxide (a lead-free pigment used heavily as a whitener in coatings, paper and other industrial applications).

The National Association of Purchasing Management's *Report on Business* records the actual changes and rates of change in six important categories of data: production, new orders, inventories, prices, vendor deliveries and employment. These six components, as reported, are not adjusted to compensate for seasonal variations.

Economists have devised a variety of formulas to compensate data for seasonal variations. N.A.P.M. cooperates with the U.S. Department of Commerce, which prepares the monthly Purchasing Managers' Composite Index for publication by N.A.P.M. The Department of Commerce adjusts the six components of *Report on Business* listed above, applies various weights to each and combines them into a single index number. The Composite Index is based on analysis by the Department of Commerce and is the only part of the report adjusted for seasonal variations.

The next issue of *Report on Business* will be available Jan. 4, 1988.

Commodity Reports

Steel

Prepared by the N.A.P.M. Steel Buyer's Group. Chair: Daniel R. Krause, C.P.M., The Budd Company, Troy, Michigan.

As the third quarter drew to a close, conditions in the domestic steel industry continued to baffle the experts. Mills are booked well into the first quarter of 1988 and have been limiting fourth-quarter orders from customers, with some mills actually returning orders that had been booked for several weeks. Shipments seem certain to exceed 73 million tons domestically, up from earlier estimates as low as 65 million tons.

Price increase announcements for all products appear to be sticking. Plate and coil products are seeing base prices and extras increasing simultaneously along with competitive allowance reductions. Many buyers believe the producers are trying to establish price tags at a high level as a pricing strategy, so if the market should turn down, they would have more margin to work with if the discounting of the past years should begin again.

Several reasons are being given for demand being so strong. To mention a few: steel-users' inventories have risen significantly, imports are tracking lower, continued production problems are affecting either hot-metal or finishing operations at most integrated producers, steel consumption is not off as drastically as earlier predicted, and mills are reluctant to bring on previously curtailed production capacity.

Producers are also being more selective on the products they choose to produce; hot rolled grades, which typically sell at low prices, are being replaced in production schedules with value-added, high-strength specialty grades. This is causing serious availability problems in basic carbon steel grades, A36 and rebar. In the plate market, demand remains strong and capacity is limited. Even with the reopening of the Geneva, Utah mill, the available capacity to produce plate still remains at approximately 5 million tons, less than half that of 1981.

Every indication points to a strong demand in the first half of 1988, and buyers should expect continued upward price pressure from the producers. This is, of course, a good news-bad news scenario. The good news is that improved profitability for the mills will make the survival of some of the financially troubled producers more likely. The bad news is that continued high prices for steel could unfavorably affect the economy's low rate of inflation. *(Patrick C. Conroy, Valmont Industries, Valley, Nebraska)*

Energy

Prepared by the N.A.P.M. Energy Committee. Chair: Howard T. Perley, C.P.M., International Paper Company, Memphis, Tennessee.

Natural Gas: Only a few years ago, all gas transported by interstate pipeline companies was owned by them and was sold to local gas utilities. Now, more than half the gas transported belongs to others, including end-users. Many local gas utilities are also buying gas directly from producers — as much as a quarter of their total requirement — and transporting it through interstate pipelines. The pipeline system cannot always cope with these new flow patterns, so end-users are seeing more interruptions as a result of pipeline bottlenecks.

Some turmoil in the gas industry has also been caused by recent changes in federal regulations (FERC Order 500). Not all producers and pipelines are willing to accept the latest transportation requirements. The result has been actual or threatened interruption of some end-user gas transportation. Eventually, competitive forces will likely encourage almost complete acceptance of the federal regulations. *(Ian G. Mackenzie, C.P.M., Corning Glass Works, Corning, New York)*

Electricity: Electric power costs continue to be utility-specific. Costs of fuels for power generation, capital requirements for construction programs, and the need for less or more generation capacity all affect rates and the outlook for cost escalation.

Fuel costs appear stable, even for utilities highly dependent upon oil and natural gas, so utilities that have completed construction programs or depend primarily upon purchased power should have little or no price increases in 1988. Utilities that are bringing new generation capacity on line, however, will be asking for large increases in rates to support the capital invested in these facilities.

Many proposals are being offered to modify traditional investment recovery processes. Industrial users should be alert to these proposals to ensure that they are not being asked to subsidize residential and other customer classes. Also, the new lower income-tax rates will benefit all electric utility customers. Some utilities are attempting to combine rate increases with the required rate reductions to reduce the visibility of the rate increase.

Energy Technology: Most current activity is directed toward development of practical superconducting materials. Superconductivity is the property of certain materials to lose their resistance to electricity, thereby promising more efficient generation and transmission of electricity. This phenomenon has been observed for some time in the laboratory, but only at extremely low temperatures (below minus 400 degrees Fahrenheit). The challenge to practical application is to develop materials that will exhibit the same properties at higher temperatures. This has recently been achieved in certain ceramic materials. Despite these major breakthroughs in the last six months, it will be years before practical applications are a reality. *(T.V. Doyle, C.P.M., Westinghouse Electric Corporation, Pittsburgh, Pennsylvania)*

Petroleum Products: During the past few weeks, distillate fuel oil prices have increased as a result of low inventories and higher agricultural demand. Prices will continue to be strong until the first of the year. Residual fuel oil prices continue to be higher in relationship to crude prices because of market demands, but a mild winter can reduce prices. OPEC will meet in December to discuss new ceiling prices, but most experts believe that its $18-per-barrel price target will hold. *(Gary Chesnut, Ag Processing Inc., Omaha, Nebraska)*

Coal: The coal market remains depressed and price concessions are available as a result of continued oversupply. There has been very little stockpiling in anticipation of a possible UMW strike early next year. Various non-strike local agreements and the increased number of non-union mines have minimized general concern. *(Judith K. Perry, International Paper Company, Memphis, Tennessee)*